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## CONSUMER CONFIDENCE INDEX IN CORONAVIRUS DISEASE (COVID-19) ERA

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### ABSTRACT

*The consumer confidence index is an economic indicator designed to measure consumer confidence or doubt about the economic conditions of a country. The consumer confidence index can have an impact on the level of consumer interest in shopping so that it affects business activities, industry, and has a direct impact on the rate of economic growth. The condition of the consumer confidence index continues to improve, even though it is still during the Covid-19 pandemic and is still in the pessimistic zone, namely the index is below 100, the August 2020 consumer confidence index is 86.9 that is higher than in July 2020 of 86.2. This study uses trend analysis to estimate or forecast the future, and data obtained from the Bank Indonesia Consumer Survey. The results of this study show that the improvement in consumer confidence is driven by consumer perceptions of current economic conditions, namely increased income, job availability, and purchasing of goods.*

**Keywords:** *Consumer Confidence Index, COVID-19, Economy.*

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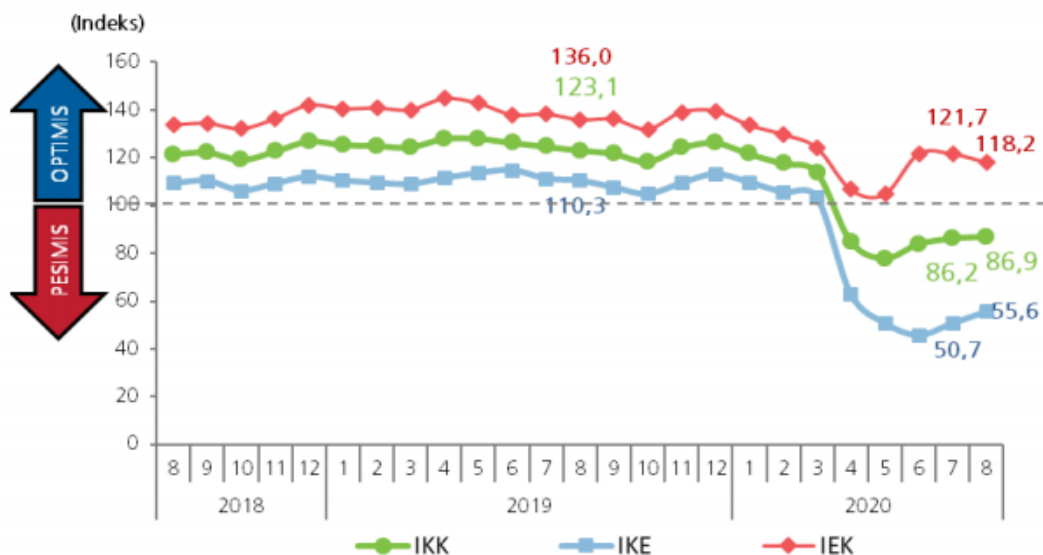
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## INTRODUCTION

The Bank Indonesia Consumer Survey in August 2020 stated that consumer confidence in economic conditions observed to have slightly improved from the previous month, while it was still in the pessimistic zone (below 100). This is indicated by the Consumer Confidence Index for August 2020 amount to 86,9, slightly improving from 86,2 in the previous month. The slightly increased Consumer Confidence Index for August 2020 was supported by improving consumer expectations of current economic conditions, the index of the Current Economic Condition Index which is still quite low and is in the pessimistic zone (<100), in August 2020 it has again increased to 55, 6 from the previous 50,7. On the other hand, consumer expectations of economic conditions in the next six months are still quite strong, although not during the previous month, as seen from the Consumer Expectation Index for August 2020 that was recorded at 118,2, lower than 121,7 on the previous month (Bank Indonesia, 2020)



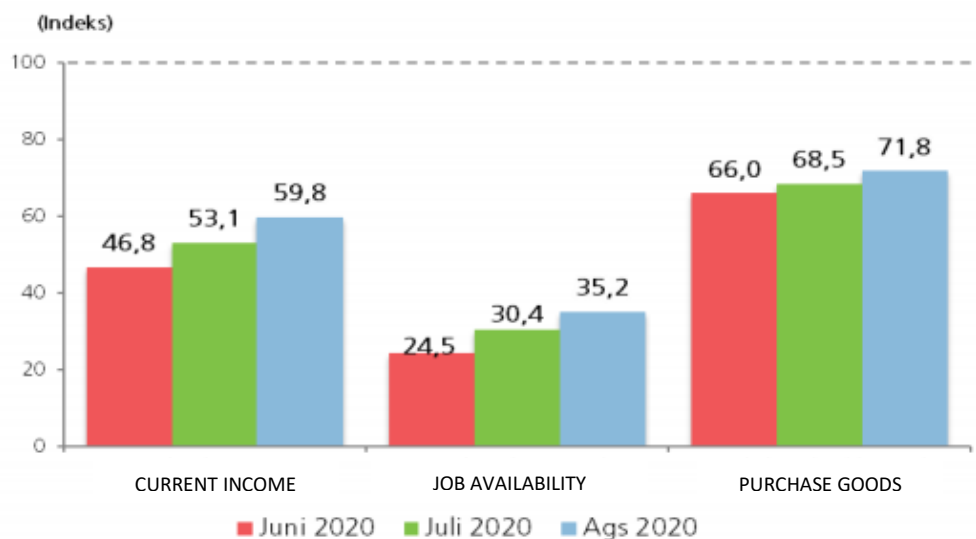
Source: Bank Indonesia (2020)

Figure 1  
Development of the Consumer Confidence Index

The role of consumer confidence (or sentiments) in the real economy is a topic of interest among researchers and policymakers (Ludvigson, 2004). the role played by consumer confidence in the real economy is less understood, in practice. Hence, the empirical explorations focus on establishing whether consumer confidence contains useful information about the economy (Juhro and Iyke, 2020). The common belief is that the recent global financial crisis resulted from a decline in consumer confidence (Iyke, 2019)

Consumption behavior is an integral part of short and long-term macroeconomic policies for two main reasons. Firstly, consumption shapes business cycles and thus affects short-term monetary policies. Secondly, the decision to consume determines the levels of saving and the capital stock, interest rates, wages, and welfare in the long run, which, in turn, influence fiscal and monetary policies (Iyke, 2019)

In July 2020, consumer perceptions of current economic conditions were observed to improve again from the previous month that it was low and in the pessimistic zone. The increase in economic activity after the relaxation of Large-Scale Social Restrictions in various cities in Indonesia has led to the improvement of consumer perceptions of economic conditions in August 2020. That is reflected in the current economic conditions index in August 2020 of 55.6, an increase from 50.7 in August 2020. previous. The increase in the index of economics conditions was driven by increases in all of its constituent components, with the highest advance occurring in the current income index of 6.7 points to 59.8 (Bank Indonesia, 2020).



Source: Bank Indonesia (2020)

Figure 2  
Current Economic Condition Index

## LITERATURE REVIEW

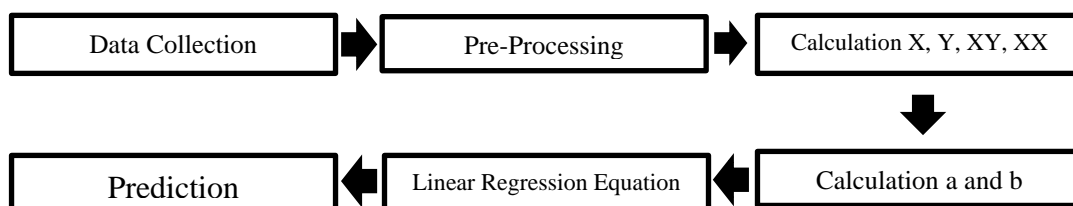
The consumer confidence index (CCI) has been proven to be one of the most influential variables in the consumption decision and, therefore, in the economic situation. (Soric, 2018). The consumer confidence index can be in certain circumstances a good predictor of consumption. In particular, out-of-

sample evidence shows that the contribution of confidence in explaining consumption expenditures increases when household survey indicators feature large changes, so that confidence indicators can have some increasing predictive power during such episodes (Dees & Soares Brinca, 2013). This index reflects the consumers degree of optimism on the general state of the economy and can be value relevant when forecasting economic conditions (European Commission, 2014; Morlino & Quaranta, 2016; Kilic & Cankaya, 2016; Soric, 2018).

Consumer confidence is measured by the amount of purchases of expensive goods during the last 12 months, or with the tendency of households to buy expensive goods, social media indices should be constructed that measure internet search for such goods (cars, houses, white goods, etc.) as well as actual purchases of such goods during the previous months (Van Den Brakel et al., 2017). The potentials of social media and big data sources can be used to measure consumer confidence, in social media index by taking the difference between positive and negative classified message.

Consumer trust is of enormous interest and value to food system researchers, actors and policy-makers alike, not least because of its expected impact consumer confidence and on the demand for products with credence characteristics like healthfulness and sustainability (Macready et al., 2020). The existence of a large or small industry will have an impact on social, economic, cultural, community income, and new jobs. The function of industrial availability is to improve the economy, industrial development in Indonesia.

At the individual level, stricter financial management is prudent; from a macroeconomic perspective, its current magnitude is worrying given that consumer spending will be a key driver of economic recovery. As economists and business leaders look for the first offshoots of growth, increased attention has been paid to monthly consumer confidence surveys, which measure households' subjective evaluations of the broad national economy and their personal finances (Ou et al., 2014).



Source: Data processed (2020)

Figure 3  
Research Framework

## **METHODOLOGY**

The consumer survey since January 2007, survey was conducted on approximately 4,600 households as respondents (stratified random sampling). The index is calculated by the balance score method (net balance + 100) that shows that if the index is above 100 it means optimistic, and below 100 means pessimistic. Judging from the data, consumer confidence in August 2020 was observed to increase in 8 cities that were the scope of the survey, namely Surabaya, Manado, Denpasar, Ambon, Banjarmasin, Pangkal Pinang, Jakarta, Banten.

This research is quantitative. The research data is taken from the publication of the August 2020 Bank Indonesia Consumer Survey issued by Bank Indonesia (BI), which includes the Consumer Confidence Index (IIK), Economic Condition Index (IKE), Expectation Index for Economic Conditions (IEK). The analysis tool uses trend analysis. This analysis tool is used to estimate or forecast the future. Data is observed from May 2020 to October 2020 to predict whether the next time the Consumer Confidence Index will change to increase or decrease on November 2020 to April.

The regression method is a statistical method that makes predictions using the development of a mathematical relationship between variables, namely the dependent variable (Y) and the variable (X). Linear regression is one of the methods used to forecast or predict the consumer confidence index. The formula for Linear Regression with the trend moment method is:

$$\sum Y_i = n.a + b.\sum X_i$$

$$\sum X_i Y_i = a.\sum X_i + b.\sum X_i^2$$

The two equations above, perform substitution and elimination operations to get the value a dan b

$$Y = a + b.x$$

Y is the quantitative consumer confidence index, x is the period of the consumer confidence index, a is a constant that shows the value of y when x = 0, and b is the amount of change in the Y value.

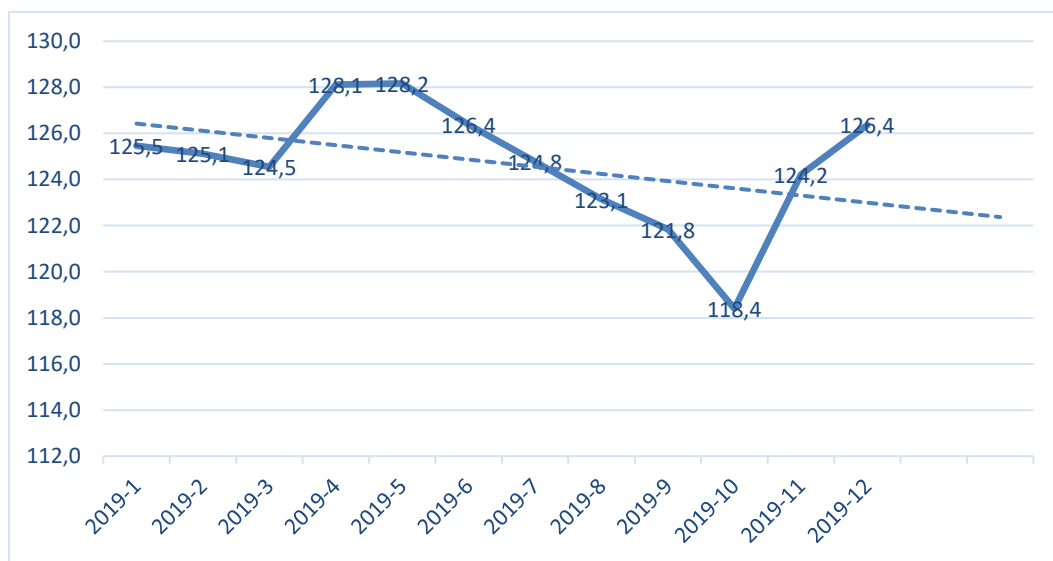
## **RESULT**

The current covid-19 pandemic has decreased consumer confidence due to decrease stages, and people are urged not to do outdoor activities. Some jobs have been reducing so that consumers no longer buy goods unless they are necessities. The decline in people's purchasing power has recently become a widely discussed economic phenomenon. The come down in people's purchasing power can be seen from the come down in the consumer confidence index since April 2020,

amounting to 84.8, which is said to be in the pessimistic zone, which is below 100.

One particular phenomenon during recessions is that consumer confidence (CC) is relatively low. CC is a psychological construct that measures customers' perceptions about their recent and future financial situation and economic climate (Ou et al., 2014). consumer confidence can have a bidirectional causality relationship with business information. We consider business information both from subjective sources, such as the small business expectations orally transmitted to consumers. (Zorio-Grima & Merello, 2020). Consumers 'confidence is influenced by consumers' personal finances and the economic environment and understood as the macroeconomic and business situation (Ferrer, Salaber, & Zalewska, 2016).

This paper investigates the impact of consumer confidence on consumer spending, analyzing from two years ago it is estimated that soon, namely in the next six months, will it increase. The consumer confidence index in 2018 is still in an optimist position, even though in March, August, October there was a decline, the decline did not reach a point below 100, meaning it can be said to be safe and improve quickly in the following months.



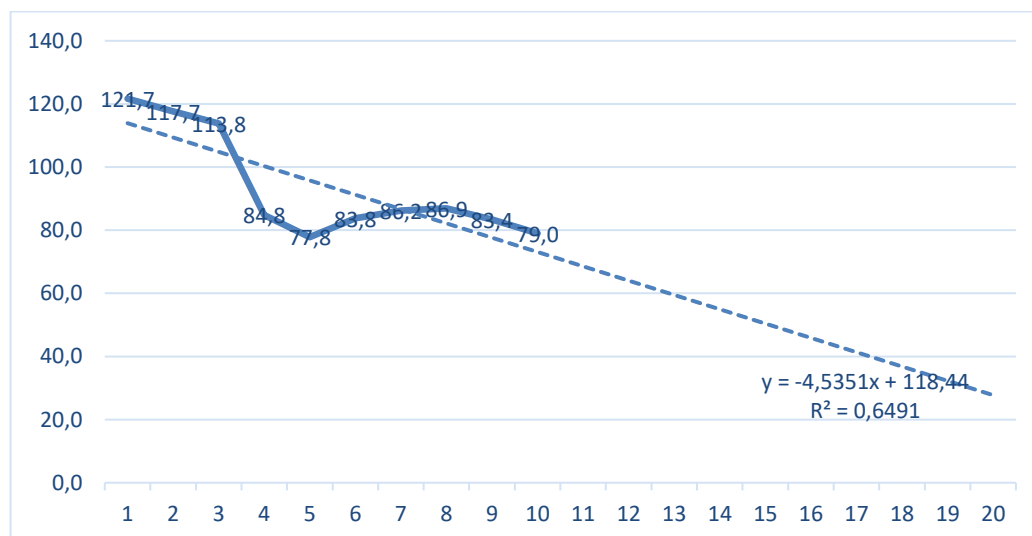
Source: Data processed (2020)

Figure 4  
Consumer Confidence Index 2019

At the beginning of the year, from January to March 2020, the consumer confidence index had decreased but not significantly. News of Covid-19 appeared in Indonesia in January 2020. The effect of Covid-19 had a significant impact on the consumer confidence index in April of 84.8, which means that the consumer

confidence index began to be in a pessimistic position, namely below 100, and continued to worsen in May at 77,8. In March in Indonesia, formal workers had introduced WFH (Work From Home). Even though informal workers did not participate in the implementation of WFH, they also felt the negative impact, namely that many traders, transportation services, hotels, restaurants were not actively working. The absence of salary income affects decreasing people's purchasing power.

In June 2020, a new normal will implement. The government allows for active work again by implementing health protocols. The goal of implementing the new normal is that people can return to their activities in the hope that the economy will improve and increase. People began to get used to activities outside of masks. Industry, restaurants, schools, hotels, and informal jobs are starting to become active again. The positive value from the new normal is that consumer confidence has begun to improve as evidenced by the consumer confidence index in July that increased by 86.2 as consumer perceptions of the current economic conditions begun to improve, indicating the level of consumer confidence and purchasing of goods. In figure 4, there is a formula obtained from the forecast from the previous year and predicted in the future using trend analysis. The chart illustrates an increase from June 2020 even though it is still in the pessimistic zone.



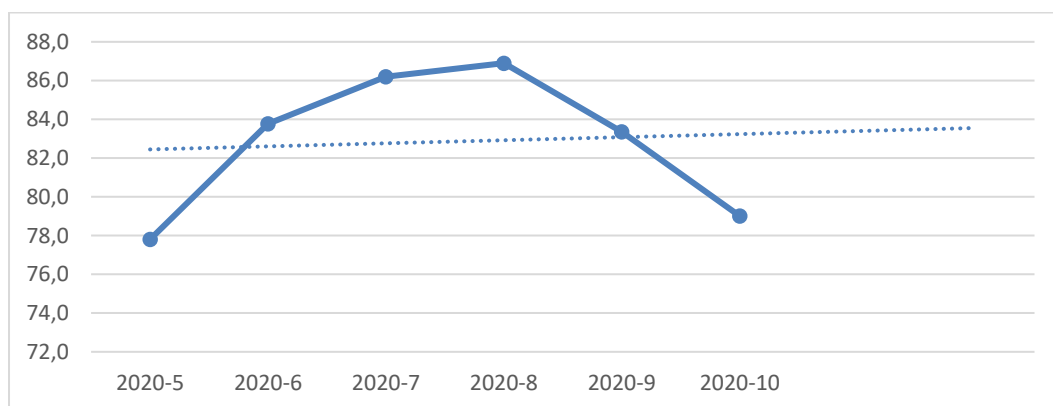
Source: Data processed (2020)

Figure 5  
Consumer Confidence Index January-October 2020

In August 2020, consumer perceptions of the current economic conditions improved again from the previous month even though the level was still low and was in the pessimistic zone, which is below 100. The busier economic activities

after the relaxation of Large-Scale Social Restrictions in various cities in Indonesia have encouraged improvements in consumer perceptions of economic conditions. However, if seen from the consumer confidence in September 2020 weakened 83.4.

The trend analysis carried out in this study, namely the estimated consumer confidence index in November 2020 to April 2021, began to show an increase in people's purchasing power, changes were slow, this proved that the people's economy to improve because people were allowed to return to work actively. The new normal, people started to reopen businesses, informal and formal jobs began to return their activities, and some people have started to take advantage of this pandemic by opening new businesses, namely making masks, personal protective equipment, and opening delivery food. When the economy can rotate well, between consumers buying and producers producing, supply, and demand will improve consumer confidence. The results of this study show that the improvement in consumer confidence is drive by consumer perceptions of current economic conditions, namely increased income, job availability, and purchasing of goods.



Source: Data processed (2020)

Figure 6  
Consumer Confidence Index May-October 2020

In this research, using the period May 2020 to October 2020 to be used as the basis for forecasting the next six months, so that the data shown no inclination in particular during the period. It can show that from May 2020 it has shown an increase in the Consumer Confidence Index, even though it decreased in October. increased consumer confidence index bolstered by stronger consumer confidence in respondents with an expenditure level of Rp. 2-4 million per month for respondents aged 20-50 years, a person is said to have had a formal or informal job, which indicates that he can shop.

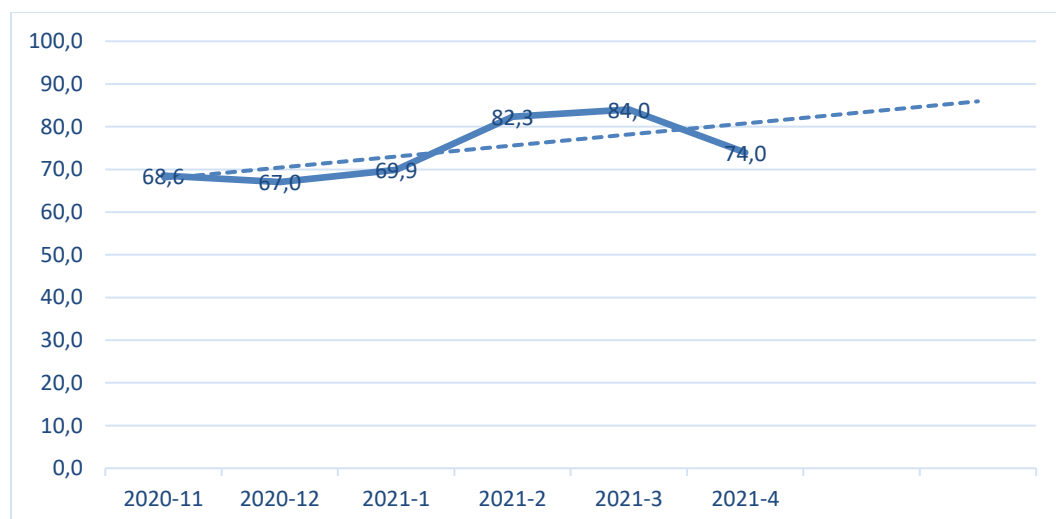


Table 1  
The Calculation Results

Period	Quantity	Xi	Yi	XiYi	XiXi
2020-5	77,8	0	78	0	0
2020-6	83,8	1	84	84	1
2020-7	86,2	2	86	172	4
2020-8	86,9	3	87	261	9
2020-9	83,4	4	83	333	16
2020-10	79,0	5	79	395	25
Total		15	497	1.245	55
Constant	Value		Y Equation		
<i>a</i>	-0,2		Y = -0,2 + 33,2 (X)		
<i>b</i>	33,2				

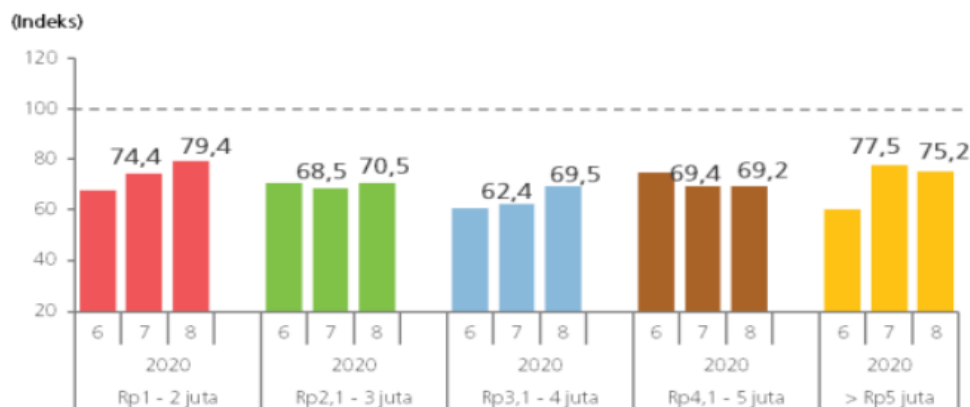
Source: Data processed (2020)

In the Forecast Consumer Confidence Index November 2020 April 2021 has increased gradually, however in April 2021 it is expected to decline, the study predicts an increase in the consumer confidence index associated with the Index of Current Economic Conditions (see figure 6). In line with the improvement in confidence in income and job availability in August 2020, consumer confidence in purchasing durable goods has also improved, especially for electronic goods and household furniture. An increase in the index occurred for respondents with expenses of Rp. 1-4 million. Judging from the age category, the confidence to buy durable goods increases among respondents aged 20-50 years. (Bank Indonesia, 2020).



Source: Data processed (2020)

Figure 7  
Forecast Consumer Confidence Index November 2020-July 2021



Source: Data processed (2020)

Figure 8  
Durable Goods Purchase Index

In line with the improvement in confidence in income and job availability in August 2020, consumer confidence in purchasing durable goods has also improved, especially for electronic goods and household furniture. An increase in the index occurred for respondents with expenses of Rp. 1-4 million. Judging from the age category, the confidence to buy durable goods increases among respondents aged 20-50 years (Bank Indonesia, 2020).

## CONCLUSION

The results obtained from this study are estimates based on data over a certain period. Data is observed from May 2020 to October 2020 to predict Consumer Confidence Index will change to increase or decrease from November 2020 to April. November 2020 to March 2021 is forecasted to experience increased consumer confidence, supported by improvement in the durable goods purchase index per expenditure category. Although the pessimistic zone is below 100, consumer confidence has begun to improve after reactivating the new normal. When the economy can rotate well, between consumers buying and producers producing, supply, and demand will improve consumer confidence. The results of this study show that the improvement in consumer confidence is driven by consumer perceptions of current economic conditions, namely increased income, job availability, and purchasing of goods. Consumer confidence that is largely driven by future job availability suggests greater potential for increased consumer spending. Consumers seem to spend more when they feel good job.

After the forecasting carried out on the consumer confidence index linked to the current economic condition index, the return of consumer confidence was influenced by income and field availability, as seen in the index increase occurred for respondents with expenses of 1-4 million and from the age category, the

confidence to buy goods increased at the age of 20 -50 years. So, when consumer confidence has started to improve, one of them is buying goods.

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